

Audit

Report



ASSURING CONDITION AND INVENTORY ACCOUNTABILITY OF
CHEMICAL PROTECTIVE SUITS

Report No. D-2000-086

February 25, 2000

Office of the Inspector General
Department of Defense

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Acronyms

DLA
DPSC

Defense Logistics Agency
Defense Supply Center Philadelphia



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2885

February 25, 2000

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Assuring Condition and Inventory Accountability of
Chemical Protective Suits (Report No. D-2000-086)

We are providing this final report for your information and use. This is the first of a series of reports on the DoD-wide inventory accounts. We audited the condition and inventory accuracy of chemical protective suits managed by the Defense Logistics Agency.

We considered management comments on a draft of this report in preparing the final report. Management comments conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. James L. Kornides at (614) 751-1400, extension 11, e-mail jkornides@dodig.osd.mil, or Mr. John K. Issel at (614) 751-1400, extension 12, e-mail jissel@dodig.osd.mil. See Appendix B for the report distribution. The audit team members are listed on the inside back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2000-086
(Project No. OFJ-2102.00)

February 25, 2000

Assuring Condition and Inventory Accountability of Chemical Protective Suits

Executive Summary

Introduction. This is the first in a series of reports on DoD-wide inventory accounts. DoD chemical protective suits are stored at the Defense Depot, Albany, Georgia, and were selected for review as part of a statistical sample that the Defense Logistics Agency developed to verify the accuracy of its inventories. Problems with inaccurate records of DoD chemical protective suits were identified previously in IG, DoD, Report No. 97-102, "Audit of Inventory Accuracy at the Defense Depot, Columbus, Ohio," February 28, 1997. That audit disclosed that the inventory of DoD chemical protective suits stored at the Defense Depot, Columbus, Ohio, was materially misstated. As part of the Defense Logistics Agency's efforts to consolidate depot operations and improve inventory accuracy, chemical protective suits were transferred to the Defense Depot, Albany, Georgia, during FY 1997.

Objectives. The overall audit objective was to evaluate management assertions pertaining to the valuation, completeness, and existence of DoD inventory. This part of the audit determined whether chemical protective suits that were known to be defective were separated from serviceable suits and whether the number of chemical protective suits recorded in the Defense Depot, Albany, Georgia, inventory records matched actual physical counts of those items.

Results. The Defense Depot, Albany, Georgia, had not separated potentially defective chemical protective suits from the active inventory or notified other activities where potentially defective suits had been issued that the suits should be inspected and returned or destroyed if necessary (Finding A).

Previously identified problems with the accuracy of the DoD chemical suit inventory were not corrected. The Defense Depot Albany, Georgia, overstated the inventory of one type of chemical suit by at least 31,277 suits, valued at \$2.3 million. Moreover, the accuracy of the inventory for the other 19 types of chemical protective suits, valued at \$96.4 million, stored at the Defense Depot, Albany, Georgia, may also be questionable (Finding B). The management control program should be improved because previously identified weaknesses were not corrected.

Recommendations. We recommend that the Commander, Defense Depot, Albany, Georgia, complete efforts to identify potentially defective suits and remove them from

inventory, alert other DoD activities to remove potentially defective chemical protective suits from inventory, perform a complete wall-to-wall inventory of all chemical protective suits, conduct research to determine causes for the \$2.3 million inaccuracy in chemical suit inventory records, and make appropriate adjustments to the accountable records.

Management Comments. The Commander, Defense Logistics Support Command, concurred with the report and the recommendations. He stated that in January 2000, the Commander, Defense Depot, Albany, Georgia, completed a wall-to-wall inventory of chemical protective suits and removed potentially defective suits from active inventory. He also stated that the Defense Supply Center, Philadelphia, Pennsylvania, notified its customers that all chemical protective suits that had critical defects and all suits manufactured under the contracts in question were to be used only for training. In February 2000, the Defense Supply Center Philadelphia sent a second message to all customers identifying the contract numbers and associated stock numbers of defective suits and alerting them that the suits should be used only for training.

Audit Response. Management comments were responsive, and no further comments are required. A discussion of management comments is in the Finding section of the report, and the complete text of the comments is in the Management Comments section.

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Background

This is the first in a series of reports on the DoD-wide Inventory accounts. The Defense Logistics Agency (DLA) operates 21 inventory storage depots containing 4.9 million consumable and repairable items. DLA storage depots are responsible for maintaining accurate inventory records, regardless of ownership of the inventory. The depot's inventory records, which are maintained in the DLA Distribution Standard System, constitute part of the financial information used to prepare annual financial statements. The depots are also responsible for issues and receipts and for the care and handling of materiel in storage.

The Defense Depot, Albany, Georgia (the Albany Depot), is 1 of the 21 Defense depots managed by DLA. One of the principal items stored at the Albany Depot is chemical protective suits. Chemical protective suits are protective garments specially designed and manufactured to permit the wearer to survive and continue performance of his or her mission with minimal performance degradation in a chemical-biological contaminated environment. As of August 1999, the Albany Depot's inventory records showed 20 different types of chemical protective suits on hand, valued at \$108.7 million.

At the time of the audit, the Defense Criminal Investigative Service was conducting an investigation related to defective chemical protective suits produced by Istratex, Incorporated, under contracts DLA100-89-C-0429 and DLA100-92-C-0427. The investigation had disclosed that the contractor supplied defective chemical protective suits under contracts awarded in 1989 and 1992 and that those suits were included in DoD inventory.

Objectives

The overall audit objective was to evaluate management assertions pertaining to the valuation, completeness, and existence of DoD inventory accounts. This part of the audit determined whether chemical protective suits that were known to be defective were separated from serviceable suits and whether the number of chemical protective suits recorded in the Albany Depot's inventory records matched actual physical counts of those items. See Part II, Appendix A, for a complete discussion of the scope, methodology, and management control program and a summary of prior audit coverage.

A. Condition of Chemical Protective Suits

The Albany Depot had not completed action to separate potentially defective chemical protective suits from the active inventory. This condition occurred because the combination of a large volume of chemical protective suits (1.14 million) transferred from the Defense Depot, Columbus, Ohio, to the Albany Depot and a lack of resources at the Albany Depot prevented separation of the potentially defective suits from the remaining usable suits. As a result, there is a risk that defective suits could be issued. In September 1999, Albany Depot managers began action to separate the defective suits. However, a plan was needed to ensure that all corrective actions are completed in a timely manner.

Suspended DoD Inventory

DoD Manual 4000.25-2, "Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP)," May 1, 1987, requires that all materiel held pending litigation or negotiation with contractors must be suspended from issue. DoD has purchased chemical protective suits that were potentially defective and litigation is pending against the supplier of the suits. Since July 1999, the defective chemical protective suits have been suspended from issue, but not separated from the chemical suit inventory. Normally, items suspended from issue are separated immediately from active inventory in order to ensure that the items are not distributed.

Inventory Separation

The Albany Depot had not completed action in response to a Defense Criminal Investigative Service recommendation to separate potentially defective chemical protective suits from active inventories. In February 1996, an investigation by the Defense Criminal Investigative Service found that some of the chemical protective suits produced by Istratex, Incorporated, under contracts DLA100-89-C-0429 and DLA100-92-C-0427 contained major defects. The defects included cuts, holes, embedded foreign matter, and stitching irregularities. Chemical protective suits issued with those types of defects would cause degradation in the wearer's performance and the potential loss of life while working in a chemical-biological contaminated environment.

The contractor produced 605,854 chemical protective suits valued at \$35.7 million under contract DLA100-89-C-0429, and 173,070 chemical protective suits valued at \$12.9 million under contract DLA100-92-C-0427.

In March 1996, DLA approved the suits for issue. DLA personnel indicated that the suits were serviceable and could be worn without degradation in performance. As a result, the chemical protective suits were issued to military personnel.

We could not determine how many chemical protective suits were issued. However, in July 1999, the U.S. Army Soldier and Biological Chemical Command recommended that the suits should not be issued until they could be inspected and tested.

The Defense Criminal Investigative Service agreed with the recommendation and contacted the Albany Depot personnel and recommended that the potentially defective suits produced under the stated contracts be separated from serviceable suits.

When asked why the defective suits were not separated, Albany Depot managers stated that the Defense Criminal Investigative Service had not requested that the Albany Depot separate the defective suits until July 1999. The Albany Depot managers also stated that they were unable to properly inspect and inventory the chemical protective suits because of the large volume received and the lack of resources.

The Albany Depot managers also stated that although the defective suits were not separated, personnel were instructed to verify that the chemical protective suits being issued did not come from the two contracts containing potentially defective suits (contracts DLA100-89-C-0429 and DLA100-92-C-0427) before releasing chemical protective suits to requesting activities.

We do not believe this action is sufficient. When responding to an urgent call for chemical protective suits in a chemical or biological emergency, there would be heightened risk of screening errors.

At the time of the audit, Albany Depot managers assured us that actions would be taken to purge the defective chemical protective suits from the active inventory. However, no definitive plan had been developed to complete the necessary actions, and no completion date had been set.

Defective suits may also be at other DoD locations. Production of the suits began in the early 1990s, and the suits may have been issued to military units. The Albany Depot had not alerted other activities where suits may have been issued about the possible defects.

Recommendations and Management Comments

We recommend that the Commander, Defense Depot, Albany, Georgia:

- 1. Complete efforts to identify potentially defective suits manufactured under contracts DLA100-89-C-0429 and DLA100-92-C-0427 and remove them from active inventory.**

Management Comments. The Commander, Defense Logistics Support Command, concurred with the recommendation and stated that the Commander, Defense Depot, Albany, Georgia, performed a complete survey and physical inventory in January 2000, moved potentially unserviceable assets to segregated storage, and recoded them to L condition (in litigation).

2. Alert other DoD activities where chemical protective suits have been issued to remove from active inventory potentially defective suits manufactured under contracts DLA100-89-C-0429 and DLA100-92-C-0427. The suits should be inspected and returned or destroyed as necessary.

Management Comments. The Commander, Defense Logistics Support Command, partially concurred with the recommendation and stated that Albany Depot is not responsible for notifying its customers of the potential defects. He stated that the Defense Supply Center Philadelphia (DSCP), Philadelphia, Pennsylvania, is responsible for alerting customers of the potential defects. He said that on December 2, 1999, DSCP alerted its customers of the potentially defective suits, and on February 9, 2000, DSCP issued a second message to all customers identifying both contract numbers and associated stock numbers of the defective suits. The message notified DoD activities that the suits are defective and should only be used for training.

B. Inventory Accuracy of Chemical Protective Suits

Problems identified more than 2 years ago with the accuracy of the DoD chemical suit inventory were not corrected. Upon receipt of the chemical protective suits transferred from the Defense Depot, Columbus, Ohio, the Albany Depot did not properly verify the quantities of chemical protective suits received. As a result, the Albany Depot overstated the inventory of one type of chemical suit by at least 31,277 suits, valued at \$2.3 million. The inventory accuracy of the other 19 types of chemical protective suits stored at the Albany Depot may also be questionable.

DoD Inventory Procedures

Overall procedures for the receipt, storage, and issue of DoD inventories are contained in DoD Directive 4140.1, "Materiel Management Policy," January 4, 1993, and DoD Manual 4000.25-2, "Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP)," May 1, 1987. DLA Manual 4140.2, "Defense Depot Transportation and Supply Procedures," volume III, March 20, 1992, provides additional inventory procedures. DoD inventory procedures require that:

- periodic physical inventories be taken to test the accuracy of inventory records, and
- inventory discrepancies exceeding \$16,000 be researched to identify the causes of the discrepancies.

Inventory Accuracy

Problems with the accuracy of the DLA inventory of chemical protective suits have not been corrected. DoD, Inspector General, Report No. 97-102, "Audit of Inventory Accuracy at the Defense Depot, Columbus, Ohio," February 28, 1997, stated that the inventory of chemical protective suits stored at the Defense Depot, Columbus, Ohio, was materially misstated. Proper inventory visibility was lacking, and appropriate inventory procedures were not being followed.

In response to the report, DLA stated that all chemical protective suits had been located, inventoried, and posted to inventory records by the Defense Depot, Columbus, Ohio, as of November 24, 1997. As part of the effort to consolidate depot operations and improve inventory accuracy, the chemical protective suits were subsequently transferred to the Albany Depot.

In August 1999, observation of physical counts of 1 of the 20 chemical suit types transferred to the Albany Depot (national stock number 8415-01-327-5349) showed that material errors in inventory accuracy still

existed. As of August 17, 1999, the Albany Depot inventory records showed 225,202 of national stock number 8415-01-327-5349 suits (valued at \$16.5 million) on hand at 16 storage locations. However, 11 of the 16 locations inventoried had incorrect quantities of the chemical protective suits. In total, counts of the chemical suits showed that 31,277 fewer chemical protective suits were actually on hand than were shown on inventory records. The value of the unaccounted-for suits was \$2.3 million.

When we asked Albany Depot personnel to explain the material error between the physical count and the inventory record of the one type of chemical suit, they stated that because of the overwhelming volume of suits transferred to them in a short period of time and their lack of resources, the quantity of the 20 different types of chemical protective suits transferred by the Defense Depot, Columbus, Ohio, had not been verified by actual count.

Material inaccuracies may also exist in the remaining quantities because of the manner in which the suits were warehoused and stored. Inventory records for the remaining 19 types of chemical protective suits showed that an additional 1.14 million suits (valued at \$94.6 million) should be on hand at the Albany Depot.

The warehouse containing the chemical protective suits is a very large building. Only a portion of the suits in the warehouse were counted during the inventory. Until a complete wall-to-wall inventory is completed, a conclusion cannot be drawn about whether the missing suits were lost, warehoused incorrectly, or recorded incorrectly for the location we tested.

Recommendation and Management Comments

We recommend that the Commander, Defense Depot, Albany, Georgia, perform a complete wall-to-wall inventory of all chemical protective suits, conduct research to determine causes for the \$2.3 million inaccuracy in inventory records, and make appropriate adjustments to accountable records.

Management Comments. The Commander, Defense Logistics Support Command, concurred with the recommendation and stated that the Albany Depot completed a wall-to-wall inventory of all chemical suits on January 3, 2000. He said that the Albany Depot and the DSCP have developed a plan of corrective action and have begun research to determine the causes of the inaccuracy in the inventory records.

Appendix A. Audit Process

Scope and Methodology

As part of the statistical sample developed by DLA to verify the accuracy of inventory reported on its FY 1999 financial statements, we observed the physical inventory counts for a total of 158 items stored at DDAG, and compared actual on-hand balances to those reported on its inventory records. Of the 158 items reviewed, one item, national stock number 8415-01-327-5349, was materially inaccurate. Therefore, we expanded our review of the Albany Depot's storage procedures to include the remaining 19 types of chemical protective suits, valued at \$96.4 million, warehoused at the Albany Depot. Results of the work related to the overall sample of 158 items will be included in a future report on the overall DLA sample of its inventory.

Our review included observation of chemical suit storage, review of inventory records, and discussions with the Albany Depot managers concerning the receipt and storage of chemical protective suits transferred from Defense Depot, Columbus, Ohio, to the Albany Depot. We also relied on information from the Defense Criminal Investigative Service, Investigation No. 93-110-44P, of defective chemical protective suits produced by Istratex, Incorporated, under contracts DLA100-89-C-0429 and DLA100-92-C-0427.

DoD-Wide Corporate Level Government Performance and Results Act Goals. In response to the GPRA, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal and performance measures:

- **FY 2001 DoD Corporate Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure
- **FY 2001 Subordinate Performance Goal 2.5.** Improve DoD financial and information management. (01-DoD-2.5)
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinion on financial statements. (01-DoD-2.5.2)

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

-
- **Financial Management Functional Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. (FM-5.3)
 - **Logistics Functional Area. Objective:** Streamline logistics infrastructure. **Goal:** Implement most successful business practices (resulting in reductions of minimally required inventory levels). (LOG-3.1)

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the financial management and inventory management high-risk areas.

Use of Computer-Processed Data. The use of computer-processed data was limited to a comparison of actual on-hand balances of 158 inventory items to the balance shown on inventory records. We did not assess the overall reliability of the computer-processed data.

Audit Period and Standards. This financial-related audit was performed from August through November 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. The results of our review are not projectable to the total inventory stored at the Albany Depot.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and evaluates the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of management controls over the inventory of DoD chemical protective suits at the Albany Depot. We also reviewed the controls over the separation of defective suits from the remaining inventory. Those controls included the provisions in DoD Manual 4000.25-2, DoD Directive 4140.1, and DoD Manual 4000.25-2.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38. The Albany Depot's management controls over the readiness and inventory of chemical protective suits were not adequate. Additionally, Albany Depot personnel did not comply with DoD procedures, directives, and manuals for controls over the chemical suit inventory. All recommendations, if implemented, will allow DoD to properly separate and account for chemical protective suits at the Albany Depot.

and in operational units. A copy of this report will be provided to the senior official responsible for management controls at the Albany Depot.

Adequacy of Management's Self-Evaluation. DLA and the Albany Depot did not identify the tracking of defective chemical protective suits or the inventory of those suits as assessable units, and therefore did not identify or report the material management control weakness identified by the audit.

Summary of Prior Coverage

Inspector General, DoD, Report No. 97-102, "Inventory Accuracy at the Defense Depot, Columbus, Ohio," February 28, 1997.

Appendix B. Report Distribution

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Defense Logistics Agency Comments



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IN REPLY
REFER TO DLSC

FEB 1 2000

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: DoDIG DRAFT REPORT on Assuring Condition and Inventory Accountability of
Chemical Protective Suits (Project No. OFJ-2102 00)

Attached are DLSC's comments on Recommendations 1, 2, and 3 of the subject report. If
you have any questions, please contact Ms. Annell Williams, DDAI, (703) 767-6274 or
Ms. Wendy McKinney, DLSC, (703) 767-1591


D. H. STONE
Rear Admiral, SC, USN
Commander

Attachment

Federal Recycling Program



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SUBJECT: Comments on Draft Audit Report, Office of the Inspector General, DoD, Project No.: OFJ-2102.00, November 30, 1999, Assuring Condition and Inventory Accountability of Chemical Protective Suits.

Recommendation 1: The Commander Defense Depot, Albany, Georgia (DDAG) complete efforts to identify potentially defective suits manufactured under contracts DLA100-89-C-0429 and DLA100-92-C-0427 and remove them from active inventory.

DLA COMMENTS: Concur.

DDAG accomplished a complete survey and physical inventory in January 2000. The potentially unserviceable assets have been moved to segregated storage and transferred to "L" condition code.

DISPOSITION: Action is complete.

Recommendation 2: The Commander, DDAG, alert other DoD activities to whom chemical protective suits have been issued, to remove from active inventory potentially defective chemical protective suits manufactured under contracts DLA100-89-0429 and DLA100-92-C-0427. The suits should be inspected and returned or destroyed as necessary.

DLA COMMENTS: Partially-Concur.

DLA non-concurs it is a DDAG responsibility to notify customers of the potential defect. We would concur in a recommendation for Defense Supply Center Philadelphia (DSCP), as the Contracting Agent and Source of Supply, to alert customers via a world-wide message. DSCP did alert their customers via December 2, 1999 message, stating all chemical protective suits under contract DLA100-92-C-0427, NSN 8415-01-137-1703, had critical defects and all Battle Dress Over Garments (BDOs) manufactured by this contractor are to be utilized for training only. DSCP will send a second overarching message to all customers identifying both contract numbers and associated NSNs of defective BDOs. This message will also state that the defective BDOs should be utilized for training only.

DISPOSITION: Action is on-going. ECD: February 9, 2000

Recommendation 3: We recommend the Commander, Defense Depot, Albany, Georgia, perform a complete wall-to-wall inventory of all chemical protective suits, conduct research to determine causes for the \$2.3 million inaccuracy in inventory records, and make appropriate adjustments to accountable records

DLA COMMENTS: Concur.

DDAG completed a wall-to-wall physical inventory of chemical suits on January 3, 2000. Causative research has begun for items with qualifying adjustments. DSCP conducted an on-site review and approved the DDAG corrective action plan on January 13, 2000.

DISPOSITION: Action is on-going. ECD: February 14, 2000

ACTION OFFICERS: Carolyn Farley, DLSC-LDA, (703) 767-2553
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Arlington, VA 22202-2884**

D. Currently Applicable Classification Level: **Unclassified**

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